<https://www.investopedia.com/terms/t/taxhaven.asp>

# Tax Haven: Definition, Examples, Advantages, and Legality

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## What Is a Tax Haven?

A tax haven is a country that offers foreign businesses and individuals minimal or no tax liability for their bank deposits in a politically and economically stable environment. They have tax advantages for corporations and for the very wealthy, and obvious potential for misuse in illegal tax avoidance schemes.

Companies and wealthy individuals may use tax havens legally as a means of stashing money earned abroad while avoiding higher taxes in the U.S. and other nations.

Tax havens may also be used illegally to hide money from tax authorities at home. The tax haven can make this work by being uncooperative with foreign tax authorities. In recent times, tax havens are under increasing international political pressure to cooperate with foreign tax fraud inquiries.

### KEY TAKEAWAYS

* Tax havens encourage foreign depositors by offering tax advantages to corporations and the wealthy.
* Many have secrecy laws that block information on their deposits from foreign tax authorities.
* Depositing money in a tax haven is legal as long as the depositor pays the taxes required by the home jurisdiction.

## Understanding Tax Havens

Broadly speaking, tax havens are jurisdictions that have very low taxes and no residency requirements for foreign entities and individuals willing to park money in their financial institutions.

A combination of lax regulation and secrecy laws enable corporations and individuals to screen some of their income from tax authorities in other nations.

The Tax Justice Network maintains a Corporate Tax Haven Index that tracks the jurisdictions that it says are "most complicit" in helping multinational corporations evade taxes. As of 2021, the worst offenders were the British Virgin Islands, the Cayman Islands, and Bermuda.1

Tax havens may be found in another country or merely in a separate jurisdiction:

### Intranational Tax Havens

Some U.S. states have no income tax. That simple fact makes them attractive to corporations looking to pay less overall in taxes, although it doesn't help them avoid federal taxes.

For example, in the United States, Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming require no state income tax.2

Delaware is the state of choice for corporate incorporation. It does not impose a corporate tax on corporations that incorporate in Delaware but do business elsewhere.3

### Offshore Tax Havens

From the viewpoint of an American, "offshore" is anywhere outside U.S. jurisdiction.

Offshore tax havens benefit from the capital their countries draw into their economies. The funds flow in from individuals and businesses with accounts at banks and other financial institutions.

Individuals and corporations benefit from low or no taxes charged on income in foreign countries where loopholes, credits, or other special tax considerations may be allowed.

Characteristics of tax haven countries generally include no or low taxes, minimal reporting of information, lack of transparency obligations, lack of local presence requirements, and marketing of tax haven vehicles.

Worldwide there is not a comprehensively defined standard for the classification of a tax haven country, but several regulatory bodies monitor tax haven countries, including the [Organization of Economic Cooperation and Development](https://www.investopedia.com/terms/o/oecd.asp) (OECD) and the U.S. [Government Accountability Office](https://www.investopedia.com/terms/g/government-accountability-office-gao.asp) (GAO).

## U.S. Government Response to Tax Havens

The [Tax Cuts and Jobs Act](https://www.investopedia.com/taxes/trumps-tax-reform-plan-explained/) (TCJA), which passed in December 2017, set the effective corporate rate of U.S. taxes at 21%.4 It also added provisions intended to discourage foreign investments.

Systematically, the TCJA is known for being more territorial in nature than previous international tax laws. The international tax system under the TCJA exempts foreign profits from domestic taxation but has certain provisions for high return foreign profits.56

Some companies that have historically been known for offshore tax haven holdings include Apple, Microsoft, Alphabet, Cisco, and Oracle. Overall, tax havens may also offer advantages in the area of credit, since it may be less expensive for U.S.-based companies to borrow funds internationally. This type of lending, which can potentially fund acquisitions and other corporate activities, is also subject to reporting within the guidelines of U.S. tax law, generally accepted accounting principles (GAAP), and guidelines under International Financial Reporting Standards (IFRS).

### Individual U.S. Taxpayers

The U.S. has special rules in place for the reporting of foreign income by U.S. citizens and non-U.S. citizens. These rules are generally governed under the [Foreign Account Tax Compliance Act](https://www.investopedia.com/terms/f/foreign-account-tax-compliance-act-fatca.asp) (FATCA).

FATCA requires the filing of a Schedule B and/or Form 8938, which provides disclosure of foreign account holdings when investments exceed $50,000. Separately, foreign account holders may also be required to file Form 114, Report of Foreign Bank and Financial Accounts.78

In general, there can potentially be exemptions and foreign tax credits for investment in all types of overseas vehicles but it is important to consult a tax advisor for individual situations to ensure proper reporting.

## Regulatory Oversight of Tax Havens

Tax havens create opportunities for illegal activities that go well beyond tax evasion. They are popular stops in the elaborate process of money laundering, which involves transferring illegally obtained cash through a series of shell companies until it can't be traced.

As such, there is some regulatory oversight of tax havens.

To maximize tax receipts, many foreign governments maintain relatively constant pressure on tax havens to release information regarding offshore investment accounts. However, because of the monetary burdens, regulatory oversight may not always be a top national priority.

Worldwide, some programs are in place to increase the enforcement of offshore investment reporting. The Automatic Exchange of Financial Information is one example, overseen by the Organisation for Economic Co-Operation and Development (OECD).9

The program requires participating countries to automatically transmit tax-related banking information of non-citizen depositors to the countries in which they are citizens.

Sometimes it takes a crisis to force change. For example, Cyprus’s financial sector, built on the country’s tax haven status, collapsed in 2013. The European Commission, European Central Bank, and the International Monetary Fund predicated an $11.8 billion bailout on the country's agreement to comply with more robust tax participation.10

## What Are the Top 10 Overseas Tax Havens?

The top tax havens currently are the British Virgin Islands, Cayman Islands, Bermuda, The Netherlands, Switzerland, Luxembourg, Hong Kong, the Cayman Islands, Jersey, Singapore, and the United Arab Emirates.1

## Which U.S. Companies Use Tax Havens the Most?

Apple, Nike, and Goldman Sachs may have the most cash stashed abroad as of this writing. Apple alone has almost $215 billion banked in Ireland.11

Other big businesses with offshore accounts include Microsoft, IBM, General Electric, Pfizer, ExxonMobile, Chevron, and Walmart.12

## What Are the Advantages of a Tax Haven?

Corporations and wealthy individuals benefit primarily from low or no taxes on their income in foreign countries where loopholes, credits, or other special tax considerations may be lawful.

Tax havens may also offer advantages in the area of credit, since it may be less expensive for U.S.-based companies to borrow funds internationally.

Also, they are discreet. They share limited or no financial information with foreign tax authorities.

## How Does a Nation Benefit From Being a Tax Haven?

The tax havens benefit when their financial institutions bring in a vast amount of money. That money is then invested for profit.

Plus, even the very low fees charged for offshore accounts add up nicely. It is estimated that U.S. companies have somewhere between $24 trillion to $36 trillion tucked away in tax havens around the globe.

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<https://taxjustice.net/faq/what-is-a-tax-haven/>

# What is a tax haven?

Although there isn’t a universally agreed definition of what a tax haven is, a tax haven generally refers to a country or jurisdiction that enables multinational corporations and individuals to escape the rule of law in the countries where they operate and live, and to pay less tax than they should in those countries.

The term “secrecy jurisdiction” is sometimes used instead of “tax haven” to refer to jurisdictions that specialise in enabling individuals to hide their wealth and financial affairs from the rule of law, more than in enabling multinational corporations to shift tax out of the countries where they operate in order to pay less tax.

# How did tax havens emerge?

Tax havens grew in the so-called post-colonial, post-empire era. As nations claimed independence from colonial rule, ‘settlers’, colonial officials, and businesspeople left the colonial world requiring more sophisticated mechanisms for taking ‘their’ assets with them, and in some cases, they wanted to maintain their assets offshore and untaxed. This context was key to the embedding of offshore into the global economy.

In many ways, tax havens function as ‘second empires’ enabling the continuing extraction of wealth and tax revenues for the powerful. It has always been possible for wealthy people to take their wealth (or themselves) elsewhere to other jurisdictions, to escape the responsibilities of society at home, but tax havens and the nature of modern finance means the possibilities go far beyond what they could once physically carry or pay others to carry on their behalf. Today it seems to be limitless.

The founding of the Swiss Confederation in 1848 marked the birth of perhaps the first organised and identifiable tax haven – though bankers in Geneva and Zurich had harboured Europeans élite’s’ wealth in conditions of secrecy for years beforehand. Various pirate coves in the Caribbean, the English Channel and elsewhere also hosted what might be described as early offshore activity.

The era of financial globalisation from the 1960s onwards marked a new, more virulent phase of offshore activity, as staid and secretive Swiss-styled banking secrecy was complemented by more aggressive, hyperactive Anglo-Saxon strains that took off in the Caribbean and Britain’s nearby Crown Dependencies, alongside Luxembourg and other European havens.

The United States began deliberately putting into place secrecy facilities from the 1970s in particular. European jurisdictions such as Ireland and the Netherlands began to get in the game. Asian havens, notably Hong Kong and Singapore, also have long histories as centres for often illicit offshore finance, and are the fastest-growing segment of the offshore game today.

To read more about the history of tax havens, we would highlight a few resources.  
Nicholas Shaxson’s 2011 book Treasure Islands is the most widely referenced book on the subject. For a shorter summary of some of the historical points, see his article in Vanity Fair, [A Tale of Two Londons](https://archive.vanityfair.com/article/2013/4/a-tale-of-two-londons).)

# How much money is in tax havens?

An $21 to $32 trillion in financial assets are sitting offshore in tax havens. Due to the secrecy that pervades the tax haven system, precise numbers are hard to come by so estimates can vary. The Tax Justice Network estimates that $427 billion is tax is lost every year to tax havens.

# How do people hide wealth in tax havens?

One of the most common ways people hide their wealth in tax havens is by setting up a legal vehicle (like a corporation or trust) to hold their wealth or assets without disclosing information about their identity or about the wealth or assets held by the legal vehicle. These secretive structures serve as a curtain or firewall between the owner and their wealth, obscuring the owner’s identity and helping them hide the true value of their wealth and, ultimately, pay less tax than they should.

There are  a range of financial instruments that people can use, often supported by a large infrastructure of lawyers, accountants, bankers, trust and company formation agents, and other professionals. Some secrecy jurisdictions choose not to collect information about companies established under their jurisdiction so that they cannot be forced into revealing information about their clients. Other actively put up barriers to international cooperation and transparency by making it illegal for bankers to disclose information about their clients to investigative authorities.